



CITY OF HOUSTON

Finance and Administration
Department

Interoffice

Correspondence

To: Lee P. Brown, Mayor
Members of City Council

From: Philip B. Scheps
Director

PS

Date: July 25, 2003

Cc: Al Haines, CAO

**Subject: JUNE MONTHLY FINANCIAL AND
OPERATIONS REPORT**

The purpose of this document is to provide the monthly financial report for the period ending June 30, 2003. This represents the full 2003 fiscal year, however changes continue to be made as year-end accruals are booked, therefore, the final CAFR numbers will likely be somewhat different.

Revenues

Total revenues for the fiscal year are now being reported to be \$1.36 billion, not including the one-time transfers (primarily from the Disaster Recovery Fund and the Debt Service Fund) that were necessary to balance the budget in the face of the large revenue shortfall. A comparison of the original budget projections and the results reported in this document is shown below:

(\$ in thousands)

	Adopted Budget	Final Results	Difference
Sales Tax	361,087	320,280	-40,807
Property Tax	654,070	647,281	-6,789
All Franchise	160,020	163,557	3,537
All Other	175,179	170,830	-4,349
Direct Interfund	74,457	62,099	-12,358
Total	1,424,813	1,364,047	-60,766

The table above demonstrates the large drop in sales tax and the drop in property tax revenue that have been recognized in previous MFORs. Reasons for the reduction in property tax revenue are as follows: (a) the tax base "surprise" that accompanied the certified roll that was delivered last August, (b) underestimation of amounts owed to TIRZs, and (c) an unprecedented drop in last year's tax base that occurred recently. This last factor was unexpected because in each of the prior four years, the "old" tax base has changed only slightly this far into the new year. However, information received from HCAD last week indicated a substantial drop in tax base from April to June. Causes for this drop are being investigated by HCAD.

Delinquent tax collections and the overall current collection rate were as originally predicted.

The decrease in Direct Interfund Services is primarily the result of the change in the need for HPD overtime at the airport that occurred early in the fiscal year. The amount is exactly offset by expenditure reductions in the Police Department.

The largest contributors to the projection error in the “All Other” category were interest earnings, municipal court fines and licenses and permits. City Council action to rescind the residential fire alarm registration fee caused a reduction of \$3.6 million in the “licenses and permits” category.

Expenditures

Final departmental expenditures will not be accurately known until year-end transfers are booked. Most departments will end the year slightly under their reduced budget, primarily as a result of managing toward a possible large need for termination payments as a result of the layoff. Since many City employees were placed in funded General Fund positions or in enterprise fund positions, much of this reserved termination money was not needed.

Overall, the report shows expenditures of \$1,392.8 million, or about \$36 million less than the adopted budget. As mentioned above, approximately \$12 million of this is a “pass-through” and matched by revenue decreases, leaving a net reduction in expenditures, primarily as a result of management action, of approximately \$24 million.

Fund Balance

The indicated fund balance, net of the Rainy Day Fund is \$83.9 million. This amounts to approximately 6.9% of expenditures less debt service.

Enterprise Funds

Aviation – Revenues for June in all four categories showed increases, resulting in a \$4.2 million increase in projected total operating revenues, however interest income was reduced by \$1.2 million due to an earlier incorrect posting. On the expense side, services has a positive variance of \$2.5 million due to tighter cost controls.

Convention and Entertainment – The most significant change is a \$1.5 million reduction in service expenses and a \$1.5 million increase in other non-operating income due to a prior period adjustment.

Water and Wastewater – June revenues were especially strong, coming in \$5.4 million above the monthly budget of \$49.3 million. This resulted in a \$5.5 million increase in projections for the year. Another positive variance in revenues was a \$3.2 million increase in interest income due to an incorrect posting earlier in the year. On the expense side, there was a favorable \$5.0 variance in Service Contract and Utilities due to reduced electrical costs and lower costs on some contracts. As a result, the R&R fund will have an addition of \$17.3 million.

If you have any questions, please let me know.